S2120-1-U

DEPARTMENT OF TAXATION

ANNUAL REPORT 1986-1987

Keelikolani Building, Headquarters of the Department of Taxation.

The Honorable John Waihee
Governor
State of Hawaii

Richard F. Kahle, Jr.
Director of Taxation
State of Hawaii

November 2, 1987

The Honorable John Waihee
Governor, State of Hawaii
Honolulu, Hawaii

Dear Governor Waihee,

I am pleased to present to you this annual report of the activities of the Department of Taxation for the fiscal year ending June 30, 1987.

The department was under the former administration until my appointment on December 10, 1986. A smooth transition in the administration of the state's tax laws was made possible through the cooperation of all of the department's employees. At the same time, with the able assistance of deputy director Gary S. Mijo, many changes were initiated, and we look forward to greater accomplishments in the years ahead.

Highlights of the department's accomplishments for the year are accompanied by relevant statistical tables and charts in this report.

Respectfully submitted,

Richard F. Kahle Jr.

RICHARD F. KAHLE, JR.
Director of Taxation

TABLE OF CONTENTS

PAGE

LETTER OF TRANSMITTAL TO THE GOVERNOR ..... Inside Front Cover

THE YEAR IN REVIEW 2
- Administration 2
  - Tax Services and Processing Division 2
  - Compliance Division 3
  - Staff Offices 3

MANAGEMENT PERSONNEL 6

ORGANIZATION CHART 7

DISTRICT OFFICES 8

TAX LITIGATION 10
- Boards of Review 10
- Court Cases and Legal Actions 10

LEGISLATION 10

COLLECTION AND ACCOUNTING OF TAXES 11
- Tax Collections 11
- Delinquent Taxes 13

INCOME ASSESSMENT AND AUDIT 14
- Individual Income Tax 14
- Corporate Income Tax 15
- General Excise and Use Taxes 16
- Inheritance and Estate Taxes 18
- Public Service Company Taxes 18
- Fuel Taxes 18
- Transient Accommodations Tax 21
- Other Taxes 21

STATE GENERAL FUND 22

SPECIAL PURPOSE TAXES 25

BRIEF SUMMARY OF HAWAII'S TAX SYSTEM 26
- Outline of Hawaii Tax System 27

TRAINING PROGRAMS 29

COUNCIL ON REVENUES 30

BOARDS OF REVIEW 30

THE YEAR IN REVIEW

ADMINISTRATION

After considerable discussion and debate, the Fourteenth State Legislature in its 1987 Regular Session passed Hawaii's response to the federal Tax Reform Act of 1986. On June 24, 1987, Governor John Waihee signed into law Act 239, S.L.H. 1987. Like its federal counterpart, it emphasizes elimination of the many tax preferences that proliferated over the years to erode the income tax base. In addition, this Act provides tax breaks to Hawaii's citizenry in the form of a $45-per-resident tax credit for food consumed at home, a tax credit for capital goods purchased by businesses, and a general excise tax exemption on export sales.

High on the Department's priority is the fair enforcement of Hawaii's tax laws on each citizen. A doubling of authorized personnel for the Non-Filer Unit of the Enforcement Branch reflects a desire to ensure that every individual and business entity required to file a tax return does so.

December, 1986, ushered in a new state administration and brought new leadership to the Department of Taxation. Departmental management moved swiftly to define twin goals. First, the Department will firmly enforce public compliance with the requirements of tax laws as part of each individual's privilege of democratic citizenship. Second, the Department will push with renewed vigor toward enhanced department-wide computerization.

TAX SERVICES AND PROCESSING DIVISION

In order to process all tax documents efficiently, the Document Processing Branch maintained two working shifts in its Receiving & Sorting and Data Preparation Sections. Enactment of the Transient Accommodations Tax (TAT), beginning January 1, 1987, and its impact on the branch's workload affected the decision to advance by one month to January the starting date of the second shift. Processing of TAT registration forms and mailing of the accompanying certificates of registration and tax forms were handled statewide by the Document Processing Branch.

During the peak tax months, January to May, 85% of the 32,000-plus pounds of incoming mail was processed within three days of receipt. This reflects a decrease from the previous year when 95% of the mail was processed within two days of receipt. Contributing factors were an unusually high attrition rate of temporary workers at the peak month of April and absenteeism due to illness. The Monetary Control Section cashiered 559,499 documents totalling $736 million. This compares to 411,777 documents cashiered amounting to $633 million for FY 1986.

Keypunch requirements were met by maintaining a 24-hour operation of the Data Entry Section and by contracting temporary help services during the tax season. Besides the tax documents, this section also provided keypunching services for both the TAT and the Comprehensive Net Income Tax (CNIT) test systems.

The Information Section of the Taxpayer Services Branch was augmented by five positions under departmental reorganization. This section maintains a tax assistance program with emphasis on net income taxes during the tax season. Seven field auditors assisted permanent personnel during that period in answering 52,045 telephone calls. Questions from taxpayers about registering and paying the transient accommodations tax were also handled by this section.

During the tax season, educational programs were concentrated towards business and community groups. Through the Volunteer Income Tax Assistance Program, department volunteers helped taxpayers prepare proper income tax returns.

COMPLIANCE DIVISION

The primary objective of the Compliance Division is to maximize voluntary public compliance with Hawaii's tax laws. The two major programs of the division are the audit program, whose function is to ensure accurate tax reporting, and the enforcement program, whose functions are to identify and collect delinquent accounts.

Start-up demands of the Computerized Net Income Tax (CNIT) System entailed significant deployment of personnel from both the Audit and Enforcement Branches toward that effort as well as continued overtime work during the tax filing season. For example, the Enforcement Branch experienced an increase of 35% in error adjustments and 32% in number of accounts referred. During the first half of the fiscal year, CNIT required the commitment of the entire staff of tax returns examiners and senior auditors to process adjustments required during the system's critical implementation phase.

Despite the temporary increased workload brought about by CNIT, both branches continued to produce. The Field Audit Section conducted 404 audits, assessing $7.28 million in additional taxes. For the first six months of calendar year 1987, nearly all returns were processed within six weeks of receipt. The Office Audit Section processed 460,000 documents through CNIT in addition to recording 23,000 adjustments to general excise and use tax accounts during this period.

The Enforcement Branch increased cash collections by nearly 29% to $27.9 million. The Non-Filers Unit of the Enforcement Branch strengthened its staff by the addition of six more positions.

STAFF OFFICES

Administrative Services Office

The Administrative Services Office presented its budgets for fiscal years 1987-88 and 1988-89 to the 1987 legislature and all funding requested for the Non-Filers Program was granted. Departmental operating expenditures this year totalled $10.3 million or 55¢ per $100 of taxes collected. For fiscal year 1986, the cost per $100 of taxes collected was 58¢.

The legislature authorized the department 327 positions for the fiscal year. The positions were geographically distributed as follows: Oahu 256, Hawaii 36, Maui/Molokai 21, and Kauai 14.

Departmental personnel transactions/movements included 29 civil service new hires for permanent regular positions, 112 hires for temporary appointments, and 11 retirements. Other transactions included promotions, transfers, and reallocations totalling 43, resignations 9, and terminations involving temporary positions 66.

STAFFING PATTERN

(Number of Authorized Permanent Positions)

By Organizations/Operating Programs	1987	1986	1985
Headquarters Administration	47	40	40
Tax Services and Processing Division[1]	83	89	89
Compliance Division[2]	197	198	197
TOTAL	327	327	326

[1]Tax Services and Processing Division includes three branches (see organization chart).
[2]Compliance Division includes two branches (see organization chart).

NOTE: Above does not include: (a) temporary clerical support positions utilized during the peak periods and special projects, (b) temporary student positions during the summer.

Systems and Procedures Office

With the enactment of the Transient Accommodations Tax Law (TAT) that became effective on January 1, 1987, the Systems and Procedures Office's immediate task was to develop a TAT system. To facilitate its implementation, the system was developed by utilizing, with minimal changes, the existing general excise and withholding computer programs. Cooperative efforts among the department's User and Technical Committees and personnel from the Electronic Data Processing Division (EDPD) of the Department of Budget and Finance enabled the project to commence on schedule. Processing of operators' registration forms and tax payments began February, 1987, and 8,619 transient accommodation operators were registered with the department as of June 30, 1987.

New CNIT programs will be developed to check and monitor revisions to the net income tax law included in Act 239, S.L.H. 1987. These programs are scheduled to be operational by January, 1988.

The acquisition of 10 additional video terminals and 9 printers boosted the department's teleprocessing network to 28 key stations, 121 video terminals, and 14 printers. This expanded network should provide greater efficiency in processing returns and responding to taxpayers' inquiries.

Because of continuous technological improvements, as well as the change in administration, a planning session was initiated to redefine the objectives of the Systems and Procedures Office. The results of the session were formulated into action plans through which this office will accomplish its goals.

Income Technical Office

During the 1987 legislative session, the Income Technical Office prepared testimonies on behalf of the department on 130 house bills, 169 senate bills, and 5 house resolutions. The number of prepared testimonies increased by 87% over the previous year. In addition to responding to two legislative requests for information, this office also developed and introduced eight administration tax bills of which three were enacted into law.

Official departmental positions on various tax issues and questions were communicated to tax practitioners and the general public through four tax information releases and four Department of Taxation announcements. Additionally, this office responded to specific requests by issuing 485 letter rulings and 1,615 general correspondences.

The Income Technical Office's goal of offering instructional courses to department employees resulted in three in-house training courses that included discussions relating to the transient accommodations tax and current tax legislation. The latter was augmented by the "Digest of Tax Measures," which is published annually.

This office participated in projects relating to the Comprehensive Net Income Tax and the Transient Accommodations Tax systems. It also continued its support and assistance to the Hawaii Interaction Television System.

The Income Technical Office has the responsibility of developing Hawaii state tax forms and instructions. A total of 126 forms and 25 instructions were revised, 49 new forms were introduced, and one form was retired.

Tax Research and Planning Office

Revenue impact requirements of the 1987 legislative session consisted of not only the usual complement of tax measures considered each year but also major changes to the Net Income Tax Law as contained in Hawaii's counterpart to the federal Tax Reform Act of 1986. This office prepared new individual and corporate tax schedules as well as revenue impact estimates for the various provisions of Act 239, S.L.H. 1987.

The department's report to the 1987 legislature on the effect of the revised Liquor Tax Law, as required by Act 344, S.L.H. 1986, was prepared in December, 1986. This law changed the method of taxing liquor from a percentage of wholesale price to a gallonage rate. Available data indicated that the new gallonage tax rates resulted in slightly lower total revenues for comparable volume of liquor sales.

Implementation of CNIT made it necessary to adjust the data gathering and electronic data processing requirements for the individual income, tax credit, and business income projects scheduled for the fiscal year.

The Tax Research and Planning Office continued to provide administrative and technical support to the Council on Revenues. Taxpayer response to sweeping changes contained in both the federal and state Tax Reform Acts contributed significantly to this year's relatively volatile tax collections. For FY 1986-87, the Council's early estimate of a 7.9% increase in general fund tax revenues was later revised to 12.6%. Actual collections amounted to $1,608.5 million, an increase of 16.2% over comparable collections a year earlier.

Based on revisions to the state personal income series by the Bureau of Economic Analysis of the U.S. Department of Commerce, the Council estimated that Hawaii's total personal income would rise 6.5% in calendar year 1986. Preliminary data from the federal agency indicate an increase of 7.2%.

The departmental library is now housed in the Office of the Deputy Attorney General assigned to the Tax Department.

MANAGEMENT PERSONNEL

OFFICE OF THE DIRECTOR

Director of Taxation	Richard F. Kahle, Jr.[1]
Deputy Director of Taxation	Gary S. Mijo[2]

STAFF OFFICES

Income Technical Officer	Lawrence Nakano
Tax Research and Planning Officer	Robert Koike
Systems and Procedures Officer	Edwin Matsui
Administrative Services Officer	Warren Higashi

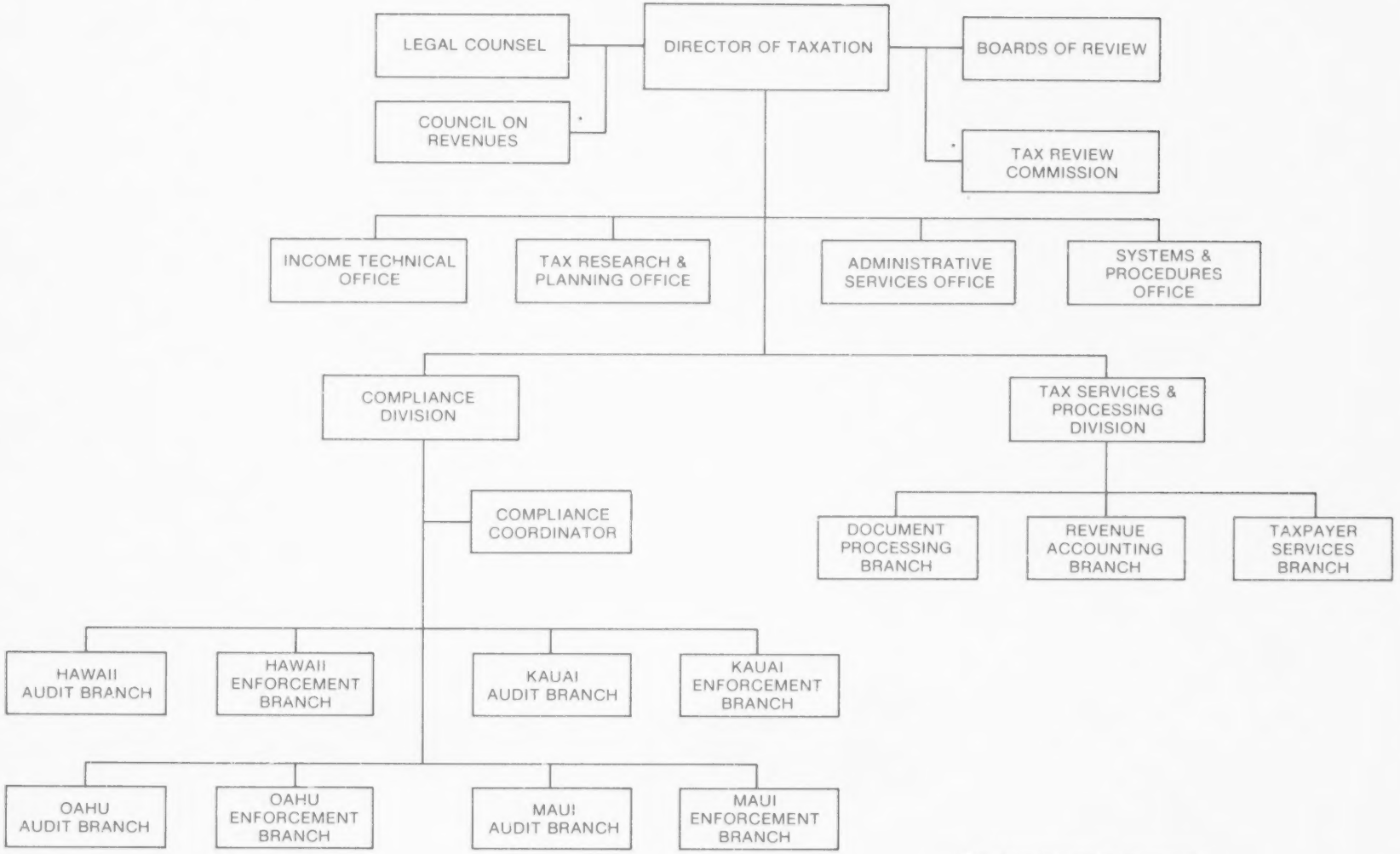
OPERATIONS STAFF

Compliance Division Chief	Kenneth Murayama
1st Taxation District Office (Oahu)	
Audit Branch	Susumu Oi[3]
Enforcement Branch	Wayne Kinoshita
2nd Taxation District Office (Maui)	
Audit Branch	Janis Shinyama
Enforcement Branch	Stanley Ching
3rd Taxation District Office (Hawaii)	
Audit Branch	Ronald Yabe
Enforcement Branch	Wendell Serrao
4th Taxation District Office (Kauai)	
Audit Branch	Ernest Balderas
Enforcement Branch	Helen Teraoka
Tax Services & Processing Division Chief	Marie Okamura[4]
Taxpayer Services Branch	June Yamamoto[5]
Document Processing Branch	Richard Yokota
Revenue Accounting Branch	Vacant

[1]Effective December 10, 1986.
[2]Effective January 16, 1987.
[3]Retired December 30, 1986.
[4]Effective May 6, 1987.
[5]Effective November 24, 1986.

ORGANIZATION CHART

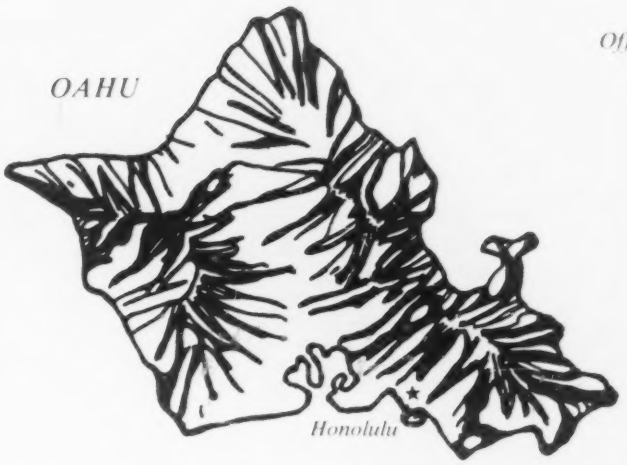
Department of Taxation
State of Hawaii



*For Administrative Purpose.

FIRST TAXATION DISTRICT

Island of Oahu

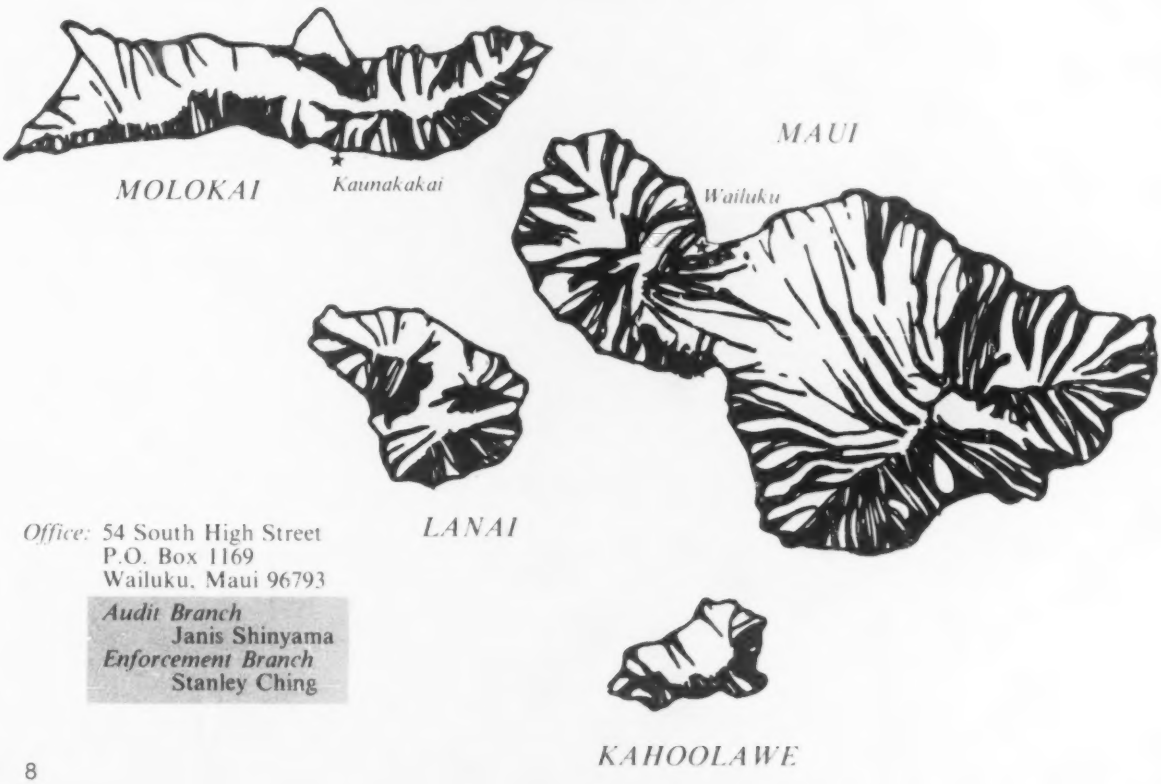


Office: 830 Punchbowl Street
P.O. Box 259
Honolulu, Hawaii 96809

Compliance Division Chief
Kenneth Murayama
Audit Branch Chief
Susumu Oi
Enforcement Branch Chief
Wayne Kinoshita
Tax Services & Processing Division Chief
Marie Okamura
Taxpayer Services Branch
June Yamamoto
Document Processing Branch
Richard Yokota
Revenue Accounting Branch
Vacant

SECOND TAXATION DISTRICT

Islands of Maui, Molokai, and Lanai



Office: 54 South High Street
P.O. Box 1169
Wailuku, Maui 96793

Audit Branch
Janis Shinyama
Enforcement Branch
Stanley Ching

THIRD TAXATION DISTRICT

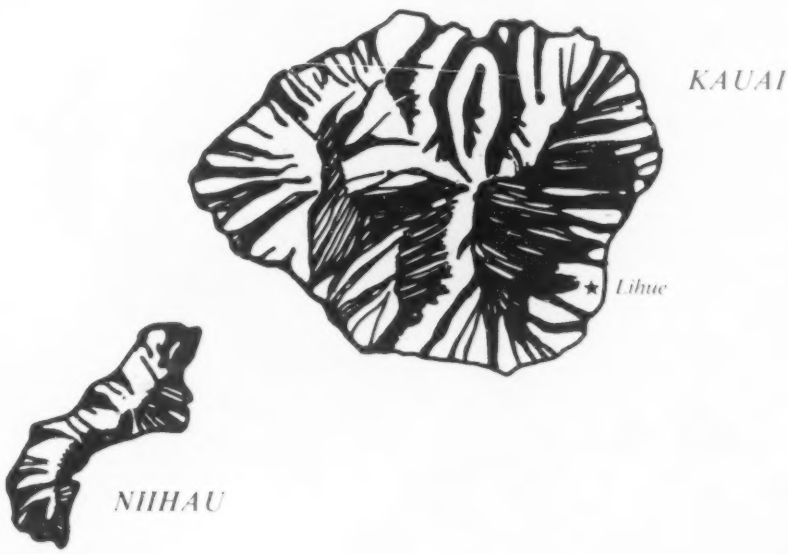
Island of Hawaii

Office: 75 Aupuni Street
P.O. Box 1377
Hilo, Hawaii 96721

Audit Branch
Ronald Yabe
Enforcement Branch
Wendell Serrao

FOURTH TAXATION DISTRICT

Islands of Kauai and Niihau



Office: 3060 Eiwa Street
P.O. Box 1689
Lihue, Kauai 96766

Audit Branch
Ernest Balderas
Enforcement Branch
Helen Teraoka

TAX LITIGATION

BOARDS OF REVIEW

The Boards of Review, consisting of five members for each district, informally hear tax appeal disputes that cannot be resolved with the tax branch within the respective district. A district-by-district summary of the appeals before the Board of Review during fiscal year 1986-87 is shown below:

	Oahu	Maui	Hawaii	Kauai
Appeals pending at fiscal year	54	19	10	—
New appeals filed	17	9	8	5
Appeals settled	11	12	11	3
Appeals withdrawn	3	—	—	—
Appeals pending at year end	57	16	7	2

COURT CASES AND LEGAL ACTIONS

The department's legal counsel was current in its calendar, thus there were no tax decisions from either the Tax Appeal Court or the Supreme Court. Five appeal cases were resolved by settlement by the parties.

In other legal matters, the following cases were closed:

Mortgage Foreclosures	109
Bankruptcy	6
Other	5

LEGISLATION

Act 239, S.L.H. 1987, adopted many of the federal tax law changes in the Tax Reform Act of 1986 in addition to some features that represented the Governor's major tax package for the 1987 Hawaii State Legislature. Act 239 included a $45 food tax credit for resident taxpayers and two provisions intended to assist business activity; a refundable capital goods excise tax credit and a general excise tax exemption on exported sales and computer services.

Other tax bills enacted are summarized below:

Act

7 General Excise Tax: Housekeeping and technical corrections to the exemption for the sale of prescription drugs and prosthetic devices.

15 General Excise Tax: Exempts food purchases made with vouchers issued under the federal Special Supplemental Foods Program for Women, Infants, and Children.

20 Public Service Company Tax: Broadens the exemption for water vessels that transport passengers on inter-island cruises.

39 Net Income Tax, General Excise Tax, and Taxation of Banks and Other Financial Institutions: Repeals obsolete net income and general excise tax exemptions. Made conforming changes affecting the tax on banks and other financial institutions.

40 Net Income Tax: Repeals the income tax credit to discourage the sale of dangerous items.

41 Net Income Tax: Provides a one dollar general Hawaii individual income tax credit.

112 Administration of Taxes: Made technical amendments to allow certain State agencies to effectively intercept state tax refunds from those persons owing money to the State.

292 General Excise Tax: Clarifies exemption for stevedoring and certain other interstate or foreign commerce activities from the general excise tax.

COLLECTION AND ACCOUNTING OF TAXES

TAX COLLECTIONS

Net tax collections by the Department of Taxation amounted to $1,730.9 million, an increase of 13.9% over the FY 1986 total of $1,519.2 million. The following table summarizes the department's collections by taxation district.

COLLECTIONS BY THE DEPARTMENT OF TAXATION
(In Thousands of Dollars)

	FY 1987	FY 1986	Av. Annual Change (Percent) 1986-87	Av. Annual Change (Percent) 1982-87
OAHU				
Gross Collections*	$1,599,704	$1,426,806	12.1	7.5
Less Appeals, Payments Under Protest, Refunds, TDI	111,806	120,209	- 7.0	- 4.4
Net Collections by Department	$1,487,898	$1,306,597	13.9	8.8
MAUI				
Gross Collections*	$ 117,267	$ 102,597	14.3	12.2
Less Appeals, Payments Under Protest, Refunds, TDI	10,217	14,174	-27.9	- 7.2
Net Collections by Department	$ 107,050	$ 88,423	21.1	17.1
HAWAII				
Gross Collections*	$ 106,231	$ 96,741	9.8	8.7
Less Appeals, Payments Under Protest, Refunds, TDI	11,070	13,527	-18.2	- 7.5
Net Collections by Department	$ 95,161	$ 83,214	14.4	13.0
KAUAI				
Gross Collections*	$ 46,834	$ 47,108	- 0.6	11.3
Less Appeals, Payments Under Protest, Refunds, TDI	6,063	6,147	- 1.4	11.4
Net Collections by Department	$ 40,771	$ 40,961	- 0.5	15.7

**Excludes conveyance, insurance premiums, and motor vehicle weight taxes.*

Besides revenue collected by the Department of Taxation, the state received $3.6 million in revenue from conveyance taxes collected by the Department of Land and Natural Resources, $35.9 million from insurance premium taxes collected by the Department of Commerce and Consumer Affairs, and $17.8 million in motor vehicle weight taxes collected by the counties. Including these amounts, taxes collected by and for the state totalled $1,788.3 million as summarized in the following table.

STATEWIDE TAX COLLECTIONS

SOURCE OF REVENUE	FY 1987 Amount Collected	FY 1987 % of Total	FY 1986 Amount Collected	FY 1986 % of Total
Banks-Financial Corps	$ 15,276,289	0.85	$ 4,934,437	0.31
Conveyance	3,622,266	0.20	1,947,474	0.12
Employment Security Contributions	76,055,780	4.25	66,951,310	4.26
Fuel	73,297,291	4.10	67,535,236	4.30
General Excise & Use	817,525,381	45.72	746,696,758	47.53
Income-Corporations	61,516,739	3.44	39,588,870	2.52
Income-Individuals	542,689,337	30.35	467,206,178	29.74
Inheritance and Estate	5,177,736	0.29	5,971,395	0.38
Insurance Premiums	35,949,389	2.01	34,609,170	2.20
Liquor & Permits	34,546,649	1.93	29,851,839	1.90
Motor Vehicle Weight/ Registration Fees	17,820,079	1.00	15,257,739	0.97
Public Service Companies	61,791,619	3.46	70,264,948	4.47
Real Property	0	0.00	24,744	0.00
Tobacco & Licenses	19,060,096	1.07	19,740,731	1.26
Transient Accom. Fees	8,619	0.00	0	0.00
Transient Accom. Tax	23,510,432	1.3	0	0.00
All Others	424,156	0.02	429,631	0.03
TOTAL	$1,788,271,858	100.00	$1,571,010,460	100.00

Nearly 90% of total state tax collections went into the state general fund, which receives all revenue not specifically reserved for state special funds or county funds. A portion of fuel taxes collected by the Department of Taxation is reserved for the counties. In FY 1987, $25.2 million in fuel taxes was transmitted to the counties.

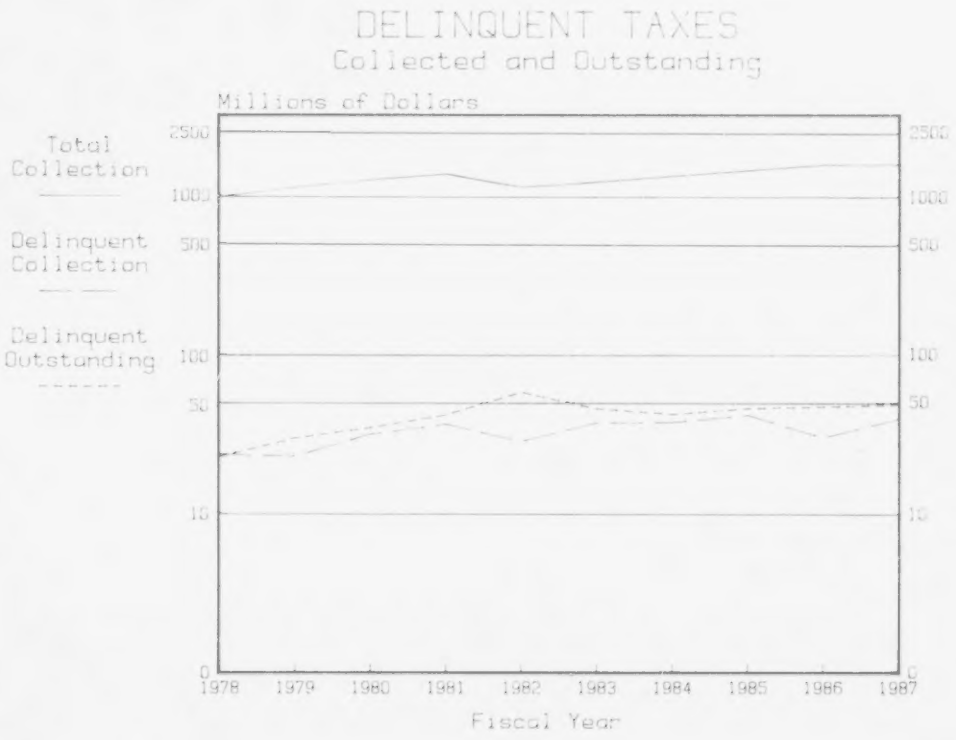
A total of $154.6 million, representing 8.6% of state tax collections, was distributed to state special funds, as summarized in the following table. Motor vehicle weight taxes received from the counties and the remainder of fuel tax collections were reserved for the State Highway Fund, the State Airport Fund, and the Boating Special Fund. The $76.1 million in employment security contributions collection by the department was distributed to the Unemployment Trust Fund. A portion of general excise tax revenue — $12.2 million — was distributed to the State Highway Fund as mandated by Act 239 passed by the 1985 legislature. The State Election Campaign Fund received $374 thousand from checkoffs by taxpayers on their individual income tax returns.

DISTRIBUTION OF COLLECTIONS

	FY 1987		FY 1986	
	Amount Distributed	% of Total	Amount Distributed	% of Total
STATE GENERAL FUND:	$1,608,493,657	89.95	$1,406,592,428	89.53
STATE SPECIAL FUNDS:				
State Highway	58,676,864	3.28	53,288,566	3.39
State Highway (Act 239, SLH 1985)	12,230,935	0.68	14,224,679	0.91
State Airport	6,566,591	0.37	5,396,452	0.34
Boating Special Fund	667,307	0.04	621,388	0.04
Unemployment Trust	76,055,780	4.25	66,951,310	4.26
Election Campaign Fund	374,116	0.02	424,324	0.03
SUBTOTAL	$ 154,571,593	8.64	$ 140,906,719	8.97
COUNTY REVENUES:				
Property	$ 0	0.00	$ 24,744	0.00
Fuel	25,206,608	1.41	23,486,569	1.49
SUBTOTAL	$ 25,206,608	1.41	$ 23,511,313	1.50
TOTAL	$1,788,271,858	100.00	$1,571,010,460	100.00

NOTE: Detail may not add to total due to rounding.

DELINQUENT TAXES



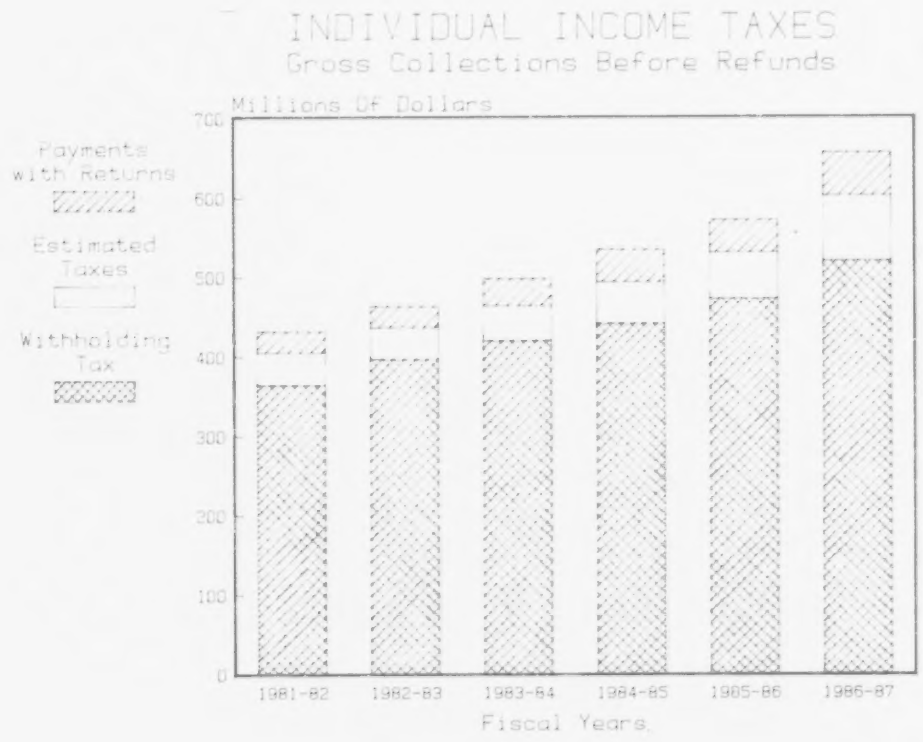
At the beginning of the fiscal year, 20,695 delinquent accounts were carried over. An additional 45,694 new referrals brought the total number of delinquent accounts to 66,389 for the fiscal year. Of this total, 41,648 accounts were closed, leaving a balance of 24,741 pending at the end of FY 1987.

The 41,648 accounts closed represented taxes of $39.4 million, which after deducting write-offs of $857 thousand on uncollectible accounts resulted in net tax revenue of $38.5 million. The average net collection per account was $925, compared to $859 for the previous fiscal year.

INCOME ASSESSMENT AND AUDIT

INDIVIDUAL INCOME TAX

All components of individual income taxes — estimated taxes, payments with return, and withholding taxes — showed strong increases during FY 1987, perhaps as a reaction towards changes generated by tax reform. As a result, total payments before refunds advanced 14.8%, more than double the 6.9% recorded the prior fiscal year.

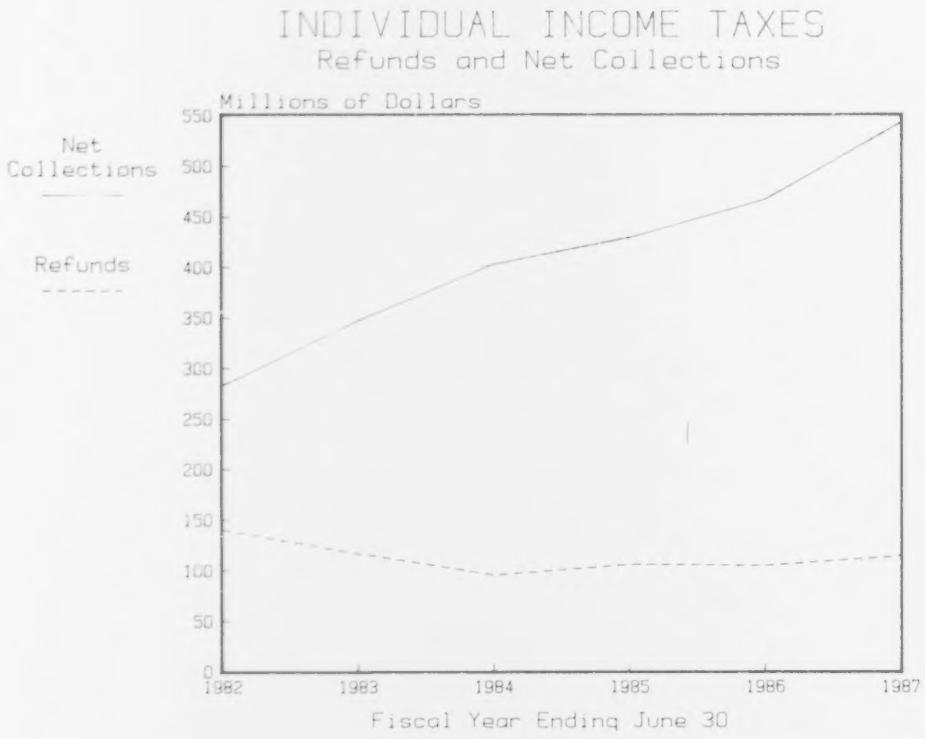


Refunds increased 8.7% after falling 1.0% the previous fiscal year. Refunds were paid out on 372,266 individual returns and averaged $306 per return, up $14 from the prior fiscal year's average of $292.

Because the growth rate in refunds was still less than the growth rate of taxes received, net individual income tax revenue increased by a strong 16.2%.

TAXES PAID BY INDIVIDUALS
(In Thousands of Dollars)

	FY 1987	FY 1986	Av. Annual Change (Percent) 1986-87	1982-87
Declaration of Estimated Taxes	$ 82,098	$ 58,842	39.5	15.4
Payment with Return	54,406	40,613	34.0	16.4
Withholding Tax on Wages	520,242	472,692	10.1	7.5
SUBTOTAL	$656,746	$572,147	14.8	8.8
Refunds	114,057	104,941	8.7	-4.2
NET	$542,689	$467,206	16.2	14.1



CORPORATE INCOME TAX

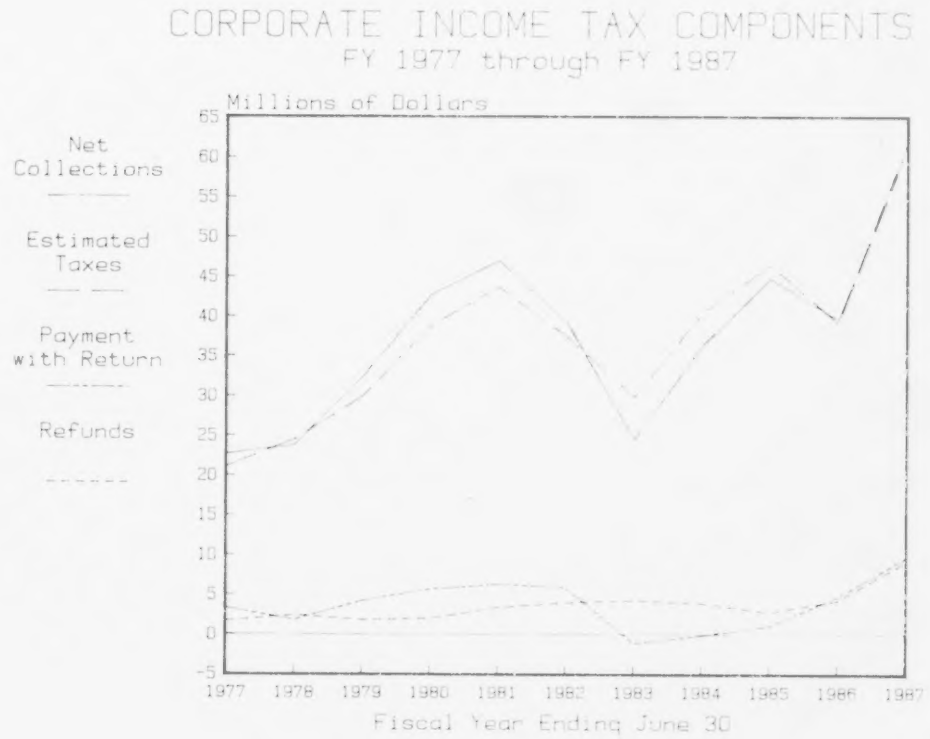
Gross collections of corporate income taxes showed a large 60.8% increase to $70.6 million, due partly to a $21.9 million rise in estimated taxes, which was likely a reaction of corporate taxpayers to changes wrought by tax reform.

While corporate refunds more than doubled, this $4.8 million increase was more than offset by the $26.7 million increase in gross collections. As a result, net corporate income tax collections amounted to $61.5 million, an all-time high.

TAXES PAID BY CORPORATIONS

(In Thousands of Dollars)

	FY 1987	FY 1986	Av. Annual Change (Percent) 1986-87	1982-87
Declaration of Estimated Taxes	$61,030	$39,163	55.8	14.0
Payment with Return	9,599	4,772	101.2	79.1
SUBTOTAL	$70,629	$43,935	60.8	15.5
Refunds	9,112	4,346	109.7	26.5
NET	$61,517	$39,589	55.4	15.6



GENERAL EXCISE AND USE TAXES

Revenue from general excise and use taxes for FY 1987 rose 9.5% to $817.5 million from $746.7 million the previous fiscal year. This revenue represented 45.7% of total state tax collections.

All general excise and use revenue sources showed increases except pineapple canning, which declined 96.9%. Since FY 1985, when it stood at $184 million, the pineapple canning tax base decreased sharply to $2 million in FY 1987. During this time period, the major canneries received foreign trade zone status, thereby exempting much of their activity from the general excise tax.

GENERAL EXCISE AND USE TAX BASE AND TAXES FOR THE FISCAL YEARS ENDING JUNE 30, 1987 & 1986

(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	1987	1986	% Change
TAX BASE				
Retailing		$ 9,537,742	$ 8,955,814	6.5
Services		2,962,914	2,606,779	13.7
Contracting		1,949,840	1,660,533	17.4
Hotel Rentals		1,339,956	1,136,012	18.0
All Other Rentals		2,145,763	2,000,822	7.2
All Others (4%)		1,463,117	1,380,434	6.0
SUBTOTAL		$19,399,332	$17,740,394	9.4
Sugar Processing		$ 368,074	$ 365,751	0.6
Pineapple Canning		2,264	71,014	-96.8
Producing		269,873	244,405	10.4
Manufacturing		597,848	554,124	7.9
Wholesaling		4,858,009	4,219,580	15.1
Use (½%)		2,012,067	1,802,331	11.6
Intermediary Services		139,451	119,232	17.0
Insurance Commissions		209,379	132,618	57.9
SUBTOTAL		$ 8,456,965	$ 7,509,055	12.6
TOTAL — ALL ACTIVITIES		$27,856,297	$25,249,449	10.3
TAX				
Retailing	4%	$ 381,510	$ 358,232	6.5
Services	4%	118,517	104,271	13.7
Contracting	4%	77,994	66,421	17.4
Hotel Rentals	4%	53,598	45,440	18.0
All Other Rentals	4%	85,831	80,033	7.2
All Others (4%)	4%	58,524	55,218	6.0
SUBTOTAL		$ 775,974	$ 709,615	9.4
Sugar Processing	.50%	$ 1,841	$ 1,829	0.7
Pineapple Canning	.50%	11	355	-96.9
Producing	.50%	1,349	1,222	10.4
Manufacturing	.50%	2,989	2,771	7.9
Wholesaling	.50%	24,290	21,098	15.1
Use (½%)	.50%	10,060	9,012	11.6
Intermediary Services	.50%	697	596	16.9
Insurance Commissions	.15%	314	199	57.8
SUBTOTAL		$ 41,551	$ 37,082	12.1
TOTAL — ALL ACTIVITIES		$ 817,525	$ 746,697	9.5

INHERITANCE AND ESTATE TAXES

An inheritance tax is imposed on estates of persons who passed away on or before June 30, 1983. For decedents after that date, a Hawaii estate tax is imposed only if the estate is subject to federal estate tax. The amount of the state estate tax is equal to the state death tax credit allowed on the federal return.

FY 1987 was the first year in which revenue from the new estate tax exceeded revenue from the old inheritance tax. As the number of estates still falling under the old inheritance law dwindles, the amount of inheritance tax revenue will continue to decrease.

Total revenue from inheritance and estate taxes amounted to $5.2 million, a 13.3% decrease from the previous fiscal year. Of the 2,642 estates settled, 289 were taxable.

INHERITANCE AND ESTATE TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1987	FY 1986	1986-87	1982-87
Inheritance Tax	$2,090	$3,919	-46.7	-4.5
Estate Tax	3,016	1,967	53.3	159.8
SUBTOTAL	$5,106	$5,886	-13.3	9.7
Penalty & Interest	72	85	-15.3	30.8
TOTAL	$5,178	$5,971	-13.3	9.8

PUBLIC SERVICE COMPANY TAXES

Public service company tax revenue amounted to $61.8 million, of which $16.3 million was paid by public utilities and $45.3 million by motor carriers, with the remainder being paid as penalty and interest.

PUBLIC SERVICE COMPANY TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1987	FY 1986	1986-87	1982-87
Public Service Company Taxes	$61,678	$70,109	-12.0	2.3
Penalty & Interest	114	156	-26.9	8.1
TOTAL	$61,792	$70,265	-12.1	2.3

FUEL TAXES

From FY 1982 to FY 1986, fuel consumption in the state increased at a very gradual pace, averaging 1.2% per year. In FY 1987, consumption shot up 18%. As the accompanying table shows, the largest increases were in diesel and aviation fuel. Gasoline consumption increased 3.9% compared to 1.5% the previous year. Increased consumption may be possibly due in part to the sharp drop in the price of oil that occurred in early 1986.

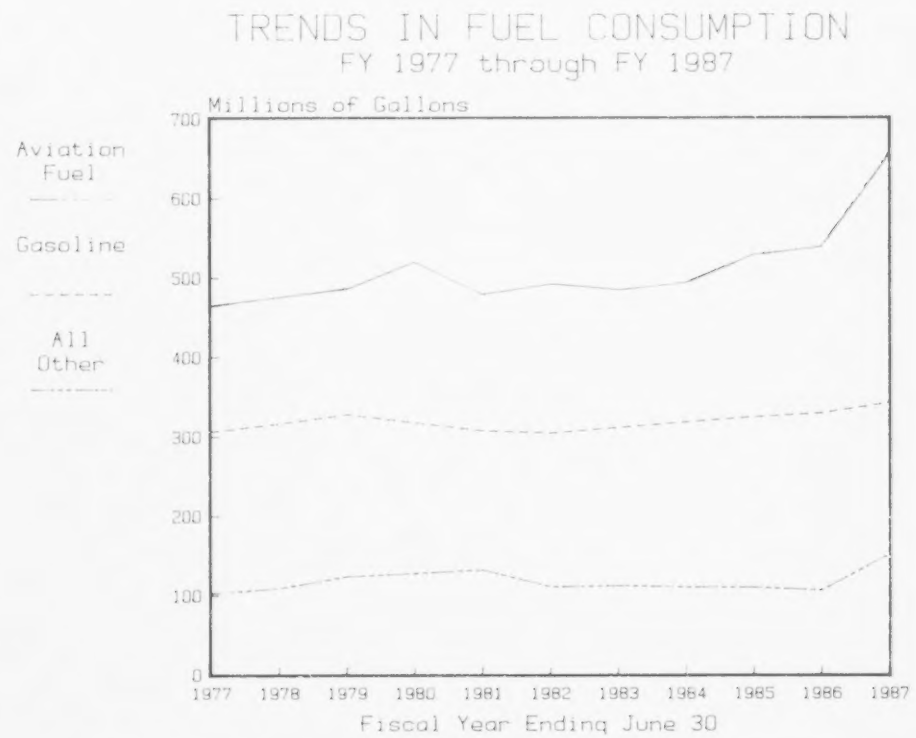
GALLONS OF FUEL CONSUMED

(In Thousands of Gallons)

	FY 1987	FY 1986	Av. Annual Change (Percent) 1986-87	1982-87
Gasoline	342,888	329,944	3.9	2.2
Diesel Oil — Nonhighway	125,604	83,770	49.9	8.5
Diesel Oil — Highway	20,738	18,091	14.6	9.4
Liq. Pet. Gas — Off Highway	3,194	2,635	21.2	6.3
Liq. Pet. Gas — Highway	1,079	976	10.6	0.8
Small Boats — Gasoline	155	166	- 6.6	-12.6
Small Boats — Diesel Oil	1,060	801	32.3	12.1
Aviation Fuel	656,659	539,645	21.7	6.2
TOTAL	1,151,377	976,028	18.0	5.1

Note: Due to rounding detail may not add to totals.

Effective July 1, 1986, Act 54 of the 1986 Legislature decreased the state fuel tax on diesel oil for highway use from 12¢ to 11¢ per gallon to bring it into parity with the tax rate on gasoline. This measure also decreased the state fuel tax on liquid petroleum gas for highway use from 8¢ to 7¢ per gallon. Meanwhile, also effective July 1, 1986, Maui county increased its county tax on gasoline and diesel oil for highway use from 6¢ to 8¢ per gallon and on liquid petroleum gas for highway use from 4¢ to 5¢ per gallon.



Fuel taxes accruing to the state highway fund increased 7.4% to $40.9 million. An additional $17.8 million accrued to the state highway fund from state motor vehicle weight tax revenue transmitted from the counties.

Fuel taxes allocated to the county highway funds amounted to $25.2 million, while the boating special fund received $667 thousand. The state airport fund received $6.6 million in revenue from the tax on aviation fuel.

FUEL TAX RATES PER GALLON[1]

	State	County	Total
GASOLINE:			
City & County of Honolulu	11¢	7½¢	18½¢
County of Maui	11¢	8 ¢	19 ¢
County of Hawaii	11¢	5 ¢	16 ¢
County of Kauai	11¢	4 ¢	15 ¢
DIESEL OIL (HWY. USE):			
City & County of Honolulu	11¢	7½¢	18½¢
County of Maui	11¢	8 ¢	19 ¢
County of Hawaii	11¢	5 ¢	16 ¢
County of Kauai	11¢	4 ¢	15 ¢
LIQUID PETROLEUM GAS (HWY. USE):			
City & County of Honolulu	7¢	5 ¢	12 ¢
County of Maui	7¢	5 ¢	12 ¢
County of Hawaii	7¢	3 ¢	10 ¢
County of Kauai	7¢	3 ¢	10 ¢

[1]Gasoline used for agricultural equipment off highways, aviation fuel, and all other fuels used off highways are taxed by the state at one cent per gallon.

ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

	FY 1987	FY 1986	Difference
STATE HIGHWAY FUND:			
Gasoline	$37,215	$35,024	$2,191
Diesel Oil — Nonhighway	1,254	837	417
Diesel Oil — Highway	2,280	2,069	211
Liq. Pet. Gas — Off Highway	32	26	6
Liq. Pet. Gas — Highway	76	75	1
SUBTOTAL	$40,857	$38,031	$2,826
Motor Vehicle Weight Tax/Reg. Fees	17,820	15,258	2,562
TOTAL	$58,677	$53,289	$5,388
COUNTY HIGHWAY FUNDS:			
City & County of Honolulu	$18,903	$18,177	$ 726
County of Maui	3,102	2,297	805
County of Hawaii	2,409	2,265	144
County of Kauai	792	747	45
TOTAL	$25,206	$23,486	$1,720
BOATING SPECIAL FUND	$ 667	$ 621	$ 46
STATE AIRPORT FUND:			
Aviation Fuel	$ 6,567	$ 5,396	$1,171

TRANSIENT ACCOMMODATIONS TAX

The new transient accommodations tax went into effect on January 1, 1987. Since monthly returns and payments are due by the end of the month following the transaction month, the FY 1987 revenue total of $23.5 million represents approximately five months of transactions. Each operator of transient accommodations is required to pay a $1 registration fee. Transient accommodations fees totalled $8,619, indicating that there were slightly more than 8,600 operators.

OTHER TAXES

The accompanying table compares tax collections from all other sources for FY 1987 and FY 1986. Revenue from these sources rose 16.7% to $184.9 million.

Showing the largest proportional increases were taxes on financial corporations and on real estate conveyances. Lower interest rates provided banks and other financial institutions with a more stable profit margin and encouraged more activity in the real estate market.

MISCELLANEOUS TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1987	FY 1986	1986-87	1982-87
Banks and Other Financial Corp.	$ 15,276	$ 4,934	209.6	136.7
Conveyance	3,622	1,947	86.0	23.5
Empl. Security Contributions	76,056	66,951	13.6	6.0
Insurance Premiums	35,949	34,609	3.9	5.7
Liquor & Permits	34,547	29,852	15.7	16.2
Tobacco & Licenses	19,060	19,740	- 3.4	6.9
General Excise Licenses & Fees	424	406	4.4	3.7
TOTAL	$184,934	$158,439	16.7	10.4

STATE GENERAL FUND

GENERAL EXCISE TAX: The general excise tax is a tax on the privilege of doing business in the state as measured by the gross proceeds of business transactions. Hawaii is one of the few states having a gross receipts tax. This tax applies, with few exceptions, to all levels of business activities, including not only the consumer level, but also the producing, manufacturing, and wholesaling activities. The significant difference between Hawaii's general excise tax as compared to a sales tax is that the incidence of the tax is on the seller rather than on the purchaser. This tax applies to receipts from the sale of tangible personal property, services performed, and income from the investment of business capital, in such forms as interest, rentals, royalties, fees, etc.

The consumer level rate is 4% with the rate on producing, manufacturing, and wholesaling at ½ of 1%. Insurance solicitors and agents have a preferential rate of .15%.

USE TAX: Under the use tax law, an excise tax is levied on the import or purchase of tangible personal property from an unlicensed seller for use or for resale at retail in the state. If the import is for resale, it carries the wholesaling rate of ½ of 1%; otherwise the rate is 4%, the same as for retailing.

INCOME TAXES: The Income Tax Law of 1957 adopted, with certain exceptions the provisions of the Internal Revenue Code in the determination of gross income, adjusted gross income, and taxable income. Some of the significant exceptions applicable under Hawaii's law are: (1) taxation of cost-of-living allowances received by federal employees in Hawaii; (2) exclusion of most pension income; (3) allowance of $7,000 personal exemption for persons who are blind, deaf, or totally disabled; and (4) a deduction, up to $5,000 a year, for an individual housing account.

ESTATE AND TRANSFER TAX: Act 217 of the 1983 Legislature repealed the Inheritance and Estate Tax and established in its place the Estate and Transfer Tax for persons dying after June 30, 1983. The amount of tax is equal to the federal credit for state death taxes on estates subject to the federal estate tax.

LIQUOR AND TOBACCO TAXES: Hawaii taxes all tobacco products at a rate of 40% of the wholesale value, in contrast to other states, which tax cigarettes on the basis of the number in the pack. Act 344 of the 1986 Legislature temporarily repealed the 20% wholesale tax on liquor and replaced it with a gallonage tax. FY 1987 tax rates were: $5.20 per wine gallon on distilled spirits, $2.00 per wine gallon on sparkling wine, $1.30 per wine gallon on still wine, $0.50 per wine gallon on draft beer, and $0.81 per wine gallon on other classes of beer and on cooler beverages.

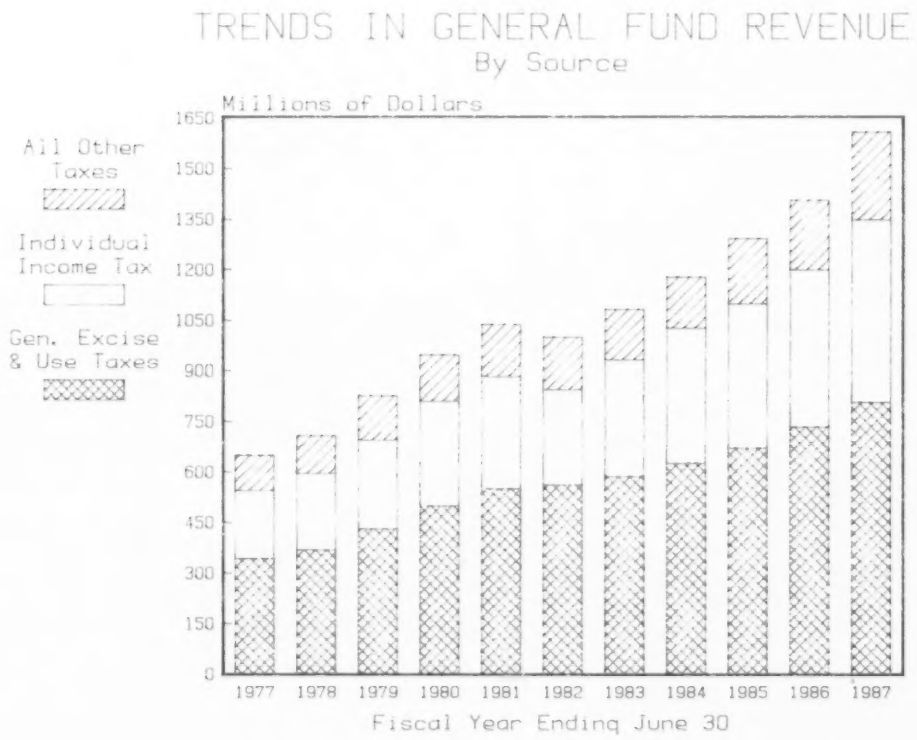
PUBLIC SERVICE COMPANY TAX: This is a tax on public utility business in lieu of general excise and real property taxes. Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers is taxed at 5.35%. The rate on all other public utility gross income is based on the ratio of net to gross income. If this ratio is 15% or less, the rate is 5.885%, increasing by .2675% for each 1% increase in ratio of net to gross. The rate of motor carrier and contract carrier business is 4% of gross income.

BANKS AND OTHER FINANCIAL INSTITUTIONS: A franchise tax in lieu of all other taxes, except real property, is imposed on both national and state banks, building and loan companies, industrial loan companies, and small business investment companies. The tax rate is 11.7% of taxable income measured by net income for the preceding year.

INSURANCE PREMIUM TAX: This is a tax on insurance companies based on premiums received in Hawaii and is in lieu of all taxes, except real property and taxes on the purchase, use or ownership of tangible personal property. This law is administered and the tax collected by the Insurance Commissioner, who is required to report to the Director of Taxation all amounts of taxes collected. The rates are: life insurance — domestic, 1.918%; and foreign, 3.19%; surplus lines, 4.68%; ocean marine, .8775%; and other insurance — domestic, 2.9647% and foreign 4.2824%. These rates are applicable to all premiums and gross underwriting profits received during the calendar year (1979 and thereafter).

CONVEYANCE TAX: This tax is imposed, with certain exceptions, on all deeds,leases, subleases, assignments of lease, agreements of sale, instruments, writings, or other documents transferring ownership or interest in any land, tenement or other realty. The rate of tax is 5¢ on each $100 of actual and full consideration paid with a minimum tax of one dollar on each taxable transaction. The purpose of this law is to acquire selling price data to determine market value which is needed to achieve uniformity in real property tax assessment.

TRANSIENT ACCOMMODATIONS TAX: This tax is imposed at a rate of 5% on the gross proceeds from furnishing accommodations to transients for less than 180 days. Exemptions are granted for health care facilities, school dormitories, nonprofit corporations, military personnel on permanent duty, and government-subsidized low-income renters.



STATE GENERAL FUND

SOURCE OF REVENUE	FY 1987 Amount Collected	FY 1987 % of Total	FY 1986 Amount Collected	FY 1986 % of Total
Banks — Financial Corps	$ 15,276,289	0.95	$ 4,934,437	0.35
Conveyance	3,622,266	0.23	1,947,474	0.14
General Excise & Use	805,294,446	50.07	732,472,079	52.07
Income — Corporations	61,516,739	3.82	39,588,870	2.81
Income — Individuals	542,315,221	33.72	466,781,854	33.19
Inheritance & Estate	5,177,736	0.32	5,971,395	0.42
Insurance Premiums	35,949,389	2.23	34,609,170	2.46
Liquor & Licenses	34,546,649	2.15	29,851,839	2.12
Public Service Companies	61,791,619	3.84	70,264,948	5.00
Tobacco & Licenses	19,060,096	1.18	19,740,731	1.40
Trans. Accom. Fees	8,619	0.00	0	0.00
Trans. Accom. Tax	23,510,432	1.46	0	0.00
All Others	424,156	0.03	429,631	0.03
TOTAL	$1,608,493,657	100.00	$1,406,592,428	100.00

Note: Due to rounding detail may not add to totals.

SPECIAL PURPOSE TAXES

FUEL TAXES: The fuel tax is administered and collected by the state, but it is a source of revenue for both state and county governments. The county tax rates on each gallon of gasoline and diesel oil used on the highways are set by the council of each county. State fuel tax rates are established by the state legislature. Revenue from this source goes into state and county special funds for use in the construction and maintenance of highways, roads, airports, and boating programs.

The county tax rates on gasoline and diesel oil used on the highways which were in effect for this fiscal year are: 7½¢ for the City and County of Honolulu, 8¢ for the County of Maui, 5¢ for the County of Hawaii, and 4¢ for the County of Kauai. The state rate is 11¢ for all gasoline and diesel oil used on the highways, and 1¢ for gasoline, diesel and liquefied petroleum gas used off highways. The aviation fuel tax rate is 1¢ per gallon. To encourage the use of liquefied petroleum gas for antipollution purposes, the fuel tax on liquefied petroleum gas used on the public highways was reduced to two-thirds of the rates applicable to diesel oil used on the highways for both state and county purposes.

HAWAII EMPLOYMENT SECURITY TAX: The proceeds from this tax go into the unemployment insurance trust fund for the payment of benefits to unemployed workers while they are seeking new jobs. This is a tax on employers and is measured by wages and salaries paid. It is a variable tax rate of up to 5.4% and is based on the employer's past employment record. This law is administered by the Department of Labor and Industrial Relations, but the tax is payable to the Director of Taxation.

Enforcement Branch work area in the Keelikolani Building.

BRIEF SUMMARY OF HAWAII'S TAX SYSTEM

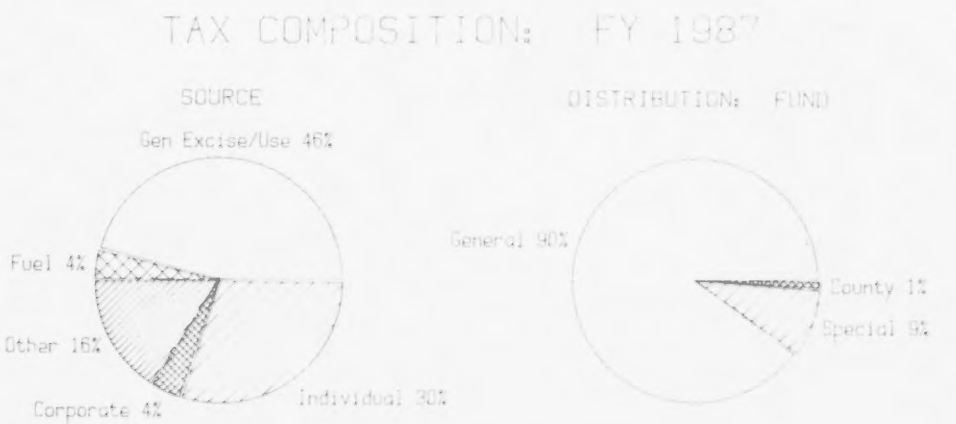
The high degree of centralization in Hawaii's tax structure enables the state government to utilize revenue sources in an effective manner. The general excise tax continues to be the major source of the state's general fund tax revenue, followed by the progressive individual income tax.

An outstanding characteristic of the state's tax structure is its use of income tax credits. These credits were designed to (a) provide relief to low-income taxpayers; (b) promote energy conservation; and (c) encourage public safety. Over the years, changes were made to simplify both the filing process and the administration of some of these tax credits.

Two tax credits which can only be claimed by resident taxpayers with adjusted gross incomes under $20,000 are the excise tax credit and the low-income renter's tax credit. Whereas the renter's credit is a flat credit based on the number of qualified exemptions, the excise tax credit is inversely graduated against adjusted gross income. The child care, energy, and child passenger restraint tax credits are available to qualified taxpayers of all income level. The amount of child care tax credit is graduated against adjusted gross income (AGI), ranging from 15% of expenses for those with an AGI up to $10,000 to 10% of expenses for those with an AGI above $18,000. Except for the child passenger restraint tax credit, all the other credits are available to resident taxpayers only.

For the taxable year 1986, Act 49 of the 1986 Legislature gave a one-time $1 general income tax credit to all residents of the State of Hawaii. This law was enacted to implement Article VII, Section 6, of the state constitution, which mandates the legislature to provide for a tax refund or credit whenever general fund year-end balances exceed five percent of general fund revenues for two successive fiscal years.

Hawaii has sixteen separate tax laws of which thirteen are administered by the state. The remaining three — the motor vehicle weight tax, the public utility franchise tax, and the real property tax — are administered by the counties. Until July 1, 1981, the real property tax law was administered by the state, with the revenue from this source accruing to the counties. At present, the counties administer all of the real property functions. The counties also administer the state and county motor vehicle weight taxes, revenues from which accrue to the state and county highway funds. Revenues from eleven of the state-administered taxes go into the state's general fund and are used to provide the various services of the state government, including the health, education, and social services systems which are state functions in Hawaii. Although the fuel tax is administered by the state, it is a source of revenue for both state and county governments. The employment security tax is a dedicated tax, used exclusively to provide benefits to unemployed workers.



OUTLINE OF HAWAII TAX SYSTEM AS OF JULY 1, 1986

Issued by the Department of Taxation

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(1) Net Income Chapter 235 - Sec. 235-1 to 235-119	Tax rates for individuals as well as estates and trusts range from 2.25% to 11.0% of taxable income. The allowable zero bracket amounts vary by filing status. The zero-bracket amount for married filing joint return or surviving spouse with dependent child is $1,000; single or head of household is $800; and married filing separately is $500. Tax rates for corporations are 5.85% up to $25,000 and 6.435% over $25,000.	Returns due 20th day of 4th month following the close of taxable year. Withholding returns due monthly, on or before the fifteenth day of the following calendar month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the fifteenth day of the month after the close of each quarter. An annual employer's return and reconciliation of Hawaii income tax withheld Form HW-3 must be filed together with a duplicate copy of each employee's tax statement Form HW-2 on or before the last day of February following the close of the calendar year. Estimates of income of individuals not subject to withholding: April 20th. Estimates of corporations: September 20th.	In general, at time of filing returns. Estimates of individuals one-quarter: April 20th, June 20th, September 20th, and January 20th. Corporations: one-half September 20th and January 20th.
(2) Estate and Transfer (For decedent's dying after 6-30-83) Chapter 236D - Sec. 236D-1 to 236D-18	Every resident decedent is taxed on transfer of taxable estate equal to federal credit for estate death taxes allowed by IRC Section 2011. Credit is allowed for death tax imposed by another state not qualified by reciprocal provision. For nonresident decedent, tax is based on transfer of taxable estate located in Hawaii by use of ratio. Exemption afforded resident estate equally applicable to nonresident, with certain exceptions.	Report (M-6) must be filed by person responsible for filing federal Estate Tax Return (Form 706). No report required and no tax due when federal Form 706 not required. To obtain release of property, file Request for Release (Form M-6A).	On or before the due date for filing federal Form 706, including extension of time, provided extension is submitted to Hawaii within 30 days of issuance.
(3) General Excise (Gross Income) Chapter 237 - Sec. 237-1 to 237-49	This is a business privilege tax measured by gross proceeds of sales or gross income. The tax rate is ½% on wholesaling and intermediary services, blind vendors, producing, manufacturing, sugar processing and pineapple canning; all other activities (retailing, business and professional services, contracting, theatre, amusement, radio, interest, commissions, rentals) are taxed at 4%, except insurance commissions received by general agents, sub-agents and solicitors who are taxed at 15%. The cost is $2.50, plus an additional 50¢ for certain retailing activities.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed $2,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed $1,000 for the calendar year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year.	At time of filing returns.
(4) Use Chapter 238 - Sec. 238-1 to 238-16	This is an excise tax levied on tangible personal property which is imported or purchased from an unlicensed seller for use in the State. The tax is based upon the purchase price or value of the tangible personal property purchased or imported, whichever is applicable. Rates: ½% if for resale at retail; 4% if for use or consumption. For exceptions, see Sections 238-3 and 238-4.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed $1,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year. These returns have been consolidated with the general excise (gross income) tax returns and are filed simultaneously.	At time of filing returns.
(5) Transient Accommodations Tax Chapter 237D - Sec. 237D-1 to 237D-17	This is a tax levied on the furnishing of a room, apartment, suite, or the like which is customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, horizontal property regime or cooperative apartment, rooming house, or other place in which lodgings are regularly furnished to transients for consideration. The tax is imposed at the rate of 5 per cent.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed $2,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed $1,000 for the calendar year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year.	At time of filing returns.
(6) Public Service Company Chapter 239 - Sec. 239-1 to 239-11	Nature of Tax: (1) Public utility business in lieu of general excise and real property taxes. (a) Measurement of assessment - general rule: Gross income from public utility business of public utilities for preceding calendar year. For exception, see Sec. 239-9. (b) Rates: (i) Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers: 5.35%. (ii) Sale of its products or services to another public utility which resells such products or services: ½ of 1%. (iii) All other revenues: If ratio of net to gross income is 15% or less: 5.885%, for each 1% increase in ratio of net to gross, rate increase .2675%. (2) Motor carrier, common carrier by water and contract carrier business (other than motor carrier business) in lieu of general excise tax. (a) Measurement of assessment - general rule: Gross income from motor carrier, common carrier by water and contract carrier business for preceding calendar year. For exception, see Sections 239-9 and 239-11. (b) Rate: 4% of gross income.	Returns filed on or before April 20th, based upon calendar year operations of preceding year.	First installment at time of filing return on or on before April 20th. Other installments on: 20th of June, September and December.

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(7) Banks, Building and Loan, Industrial Loan Companies and Certain Other Financial Corporations Chapter 241 Sec. 241-1 to 241-7	(1)(a) Assessment Date: January 1. (b) Nature of Tax: a franchise tax on banks, building and loan, industrial loan companies, financial corporations, small business investment companies, and development companies not subject to taxes imposed by Chapters 235 and 237. (For industrial loan companies, small business investment companies, and development companies exemption under Chapter 237 (gross income tax).) (2) Measure of Assessment: Net income for the preceding year from all sources as defined by Chapter 235 (Income Tax Law) with modifications. (3) Rate: 11.7% of taxable income.	Returns filed on or before April 20th or the 20th day of the fourth month following the close of the fiscal year.	First installment at the time of filing return on or on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th, and 8th month thereafter.
(8) Fuel Chapter 243 Sec. 243-1 to 243-16	Distributors, as defined, are required to pay 1¢ per gallon on aviation fuel, an initial 16 per gallon on diesel oil, liquefied petroleum gas for operation of an internal combustion engine and from 15¢ to 18 ¢ per gallon on taxed fuels other than the foregoing, also pay additional taxes from 15¢ to 18 ¢ per gallon" on diesel oil and from 14¢ to 17 ¢ per gallon on liquified petroleum gas used to operate motor vehicles upon the public highways, however, they are not required to pay these additional taxes if purchasers furnish Exemption Certificates, Form M-38. Refunds of liquid fuel used for agricultural equipment not operated upon the public highways or diesel oil and liquefied petroleum gas used for motor vehicles not operated upon the public highways may be claimed on Form M-38. Distributors are required to register and be licensed. Licenses are valid until revoked. (Effective 7-1-86, Act 54, L86)	Returns are due monthly on or before the last day of the following month.	At time of filing returns.
(9) Liquor Chapter 244D Sec. 244D-1 to 244D-17	Dealers, as defined in the law and certain others who sell or use liquor must pay an excise tax equal to 20% of the wholesale price. A $2.50 liquor tax permit is required and must be renewed before July 1st of each year. See Sec. 244-4 for exemption from tax. Act 344, 1985, temporarily repeals the 20 percent wholesale tax on (intoxicating) liquor until July 1, 1989 and imposes a per wine gallon tax for distilled spirits, sparkling wine, still wine, cooler beverages, beer other than draft beer, and draft beer from June 30, 1986 to June 30, 1989. Effective July 1, 1986.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(10) Tobacco Chapter 245 Sec. 245-1 to 245-15	Wholesalers, as defined in the law and certain others must pay an excise tax on sale or use of tobacco products equal to 40% of the wholesale price. A $2.50 tobacco tax license is required and must be renewed before July 1st of each year.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(11) Conveyance Chapter 247 Sec. 247-1 to 247-13	This tax is imposed on all documents transferring ownership or interest in real property. The rate is 5¢ per $100.00 of the actual and full consideration paid or to be paid. Minimum $1.00 tax for each taxable transaction. (Documents of certain conveyances are exempted.)	A certificate of conveyance must be filed with the document at the Bureau of Conveyance within 90 days after a taxable transaction; a claim for exemption from the conveyance tax must be filed for certain exempt conveyances.	At time of filing the certificate, but no later than 90 days after the taxable transaction.
(12) Hawaii Employment Security (Federal) Chapter 383 Sec. 383-1 to 383-174	This is a tax on wages paid payable by employing units with one or more employees with certain exemptions. The law on unemployment insurance benefit financing, amended to be effective January 1, 1979, retains the reserve ratio method of financing and establishes a two part schedule consisting of a Basic Contribution Rate Schedule and a Fund Solvency Contribution Rate Schedule. The basic contribution rate will reflect the employer's own experience with unemployment and the fund solvency rate will reflect the trust fund's financial condition and experience of all covered employers. Effective January 1, 1985, an employer's total contribution rate will not be less than 0% or greater than 5.4%.	Returns filed on or before the last day of the month following the taxable quarter.	At time of filing returns.
(13) Insurance Premiums Chapter 431 Sec. 431-1 to 431-726	Tax on insurance companies (Underwriters) based on premiums received in Hawaii in lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates: Life Insurance: Domestic 1.918%, Foreign 3.197%; 4.68% on Surplus Lines; Ocean Marine .8775% of 1% on gross underwriting profit; on other Insurance: Domestic 2.9647%, Foreign 4.2824%. This law is administered and the tax collected by the Insurance Commissioner who is required to report to the Director of Taxation all amounts of taxes collected under this chapter. See Section 431-518, 1978, relating to increase in premium tax rates applicable to all premiums and gross underwriting profit received during calendar year 1979 and thereafter.	Monthly or quarterly interim statements based on previous year's liability filed on or before the last day of the calendar month following the reporting period. Annual statement filed on or before March 15th with the Insurance Commissioner.	At time of filing statements.

DEPARTMENT OF TAXATION

TRAINING PROGRAMS FOR FISCAL YEAR

ENDING 6/30/87

Training Course	No. of Employees	Hours of Training
1. Conducting Investigations	1	8
2. Tax Reform Act of 1986	6	48
3. 1986 Clerical Seminar	52	416
4. Basic Electronics of the IBM-PC	1	3
5. User Level Trouble-Shooting of the IBM-PC	1	3
6. NATA Conference on Revenue Estimating	1	20
7. 23rd Annual Hawaii Tax Institute	7	294
8. Tax Reform Act of 1986 — Continued	10	160
9. Wang PC Overview	1	4
10. Hard Disk Management	1	3
11. Improving Your Memory	1	8
12. Time Management	1	8
13. Creative Problem Solving	1	8
14. Motivation Techniques	1	7
15. NATA Workshop on Computer Application Programming in Tax Administration	2	48
16. Interpersonal Communication	1	16
17. Time Management	1	8
18. Editing for Managers	1	8
19. Conference on Today's Women and Career Advancement	4	32
20. Managerial Skills Seminar	2	32
21. Lotus Spreadsheet	3	9
22. Desktop Publishing Presentation	1	4
23. Ventura Publisher Demonstration	3	6
24. Introduction to DBase III Plus	2	6
25. NATA Symposium "Tax Reform: Now You See It"	1	16
26. Wang PC Word Processing	1	4
27. State Agency Symposium on Equal Opportunity Laws	2	16
28. Lotus: Data Management	1	3
29. Wang WP Plus	2	5
30. Writing Skills Refresher	1	8
31. Motivation and Human Relations	1	24
32. Effective Speech Writing	1	8
33. Introduction to IBM-PC DOS	4	12
34. Intermediate IBM-PC DOS	5	15
35. Introduction to Personal Computers	4	12
36. Lotus Graphs	1	3
37. 19th Annual Board of Tax Review Conference	7	112
38. Program Planning	19	456
39. 1987 Conference of Civil Service Commissioners and Personnel Directors	1	20
TOTAL	156	1,873

NOTE: List does not include certain general interest training.

COUNCIL ON REVENUES

Lowell Kalapa, Chairman
J. Ming Chew, Vice Chairman
Thomas Cabrinha
Sam Okinaga
Gregory Pai
David Ramsour
Albert Yamada

BOARDS OF REVIEW

As of June 30, 1987

FIRST TAXATION DISTRICT (OAHU)
Frank K. Hamada, Chairman
Roy K. Amemiya, Jr., Vice Chairman
Robert E. Maynard, CPA
Norma J. Yuskos
Herbert A.B. Chang

SECOND TAXATION DISTRICT (MAUI)
Hideo Matsushita, Chairman
Harriet Mokihana Davis, Vice Chairperson
George Y. Kondo
Joseph A. Frye
Victor I. Endo

THIRD TAXATION DISTRICT (HAWAII)
Douglas Beatty, Chairman
Fred T. Yamashiro, Vice Chairman
Albert "Benny" Rodero
Antone DeMorales
Brian J. Ikawa

FOURTH TAXATION DISTRICT (KAUAI)
Lovey Leinaala Apana, Chairperson
Kazuo Senda, Vice Chairman
Wallace K. Tasaka
Erlinda Salvador
Harold Aiu

A primary function of the Data Entry Section of the Document Processing Branch is to input data required by the department's various tax programs.

More than 32,000 pounds of incoming mail was handled by the Receiving and Sorting Section of the Document Processing Branch.

A function of the Enforcement Branch is to identify and assess nonfiling taxpayers.

All tax documents filed with the department are assigned locator numbers by the Document Preparation Section of the Tax Services and Processing Division.

The File Maintenance Section is responsible for storing, securing, and providing retrieval of massive number of tax forms.

Taxpayer Services Branch Information Counter.